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Message Text

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ACTION EB-07

INFO OCT-01 ARA-06 EUR-12 EA-07 ISO-00 INT-05 XMB-02

COME-00 OMB-01 TRSE-00 STR-04 SS-15 NSC-05 SP-02

CIAE-00 INR-07 NSAE-00 L-03 PRS-01 USIA-06 AID-05

FRB-03 GSA-01 /093 W
---------- 075154
R 111300Z SEP 76
FM AMEMBASSY BRASILIA
TO SECSTATE WASHDC 7775
INFO AMEMBASSY TOKYO
AMEMBASSY JAKARTA
AMEMBASSY CANBERRA
AMEMBASSY KINGSTON
USMISSION OECD PARIS
AMCONSUL RIO DE JANEIRO
AMCONSUL SAO PAULO

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E.O. 11652: N/A
TAGS: EMIN, EINV, BR, JA
SUBJ: GO-AHEAD ON HUGE ALBRAS ALUMINUM PROJECT

REF: (A) 75 BRASILIA A-78, (B) 75 BRASILIA 6025, (C) 75 BRASILIA 7358,

(D) 75 BRASILIA A-157, (E) TOKYO 2573

CONGEN RIO AND EMBASSY PREPARED THIS MESSAGE;

1. SUMMARY. A GO-AHEAD ON THE 1.3 BILLION DOLLAR ALBRAS ALUMINA-ALUMINUM PROJECT WILL BE ANNOUNCED NEXT WEEK DURING PRESIDENT GEISEL'S VISIT TO JAPAN. ALBRAS, LOCATED IN THE AMAZON, IS EXPECTED TO PRODUCE 320,000 TONS OF ALUMINUM PER YEAR BY 1985. IT WILL USE BAUXITE FROM THE TROMBETAS PROJECT. THE ALBRAS GO-AHEAD REPRESENTS A VICTORY FOR THE GEISEL
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ADMINISTRATION, WHICH HAS PUSHED HARD ON THE JAPANESE TO

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LIVE UP TO EX-PM TANAKA'S 1974 PLEDGE OF JAPANESE PARTICIPA-
TION. THE GOJ'S WILLINGNESS TO UNDERWRITE TWO-FIFTHS OF THE
TOTAL JAPANESE SHARE PROBABLY WAS THE LINCHPIN THAT
ENDED THE EMBARRASSING DELAYS ON THE FINAL DECISION. SINCE
BRAZIL IS NOT A MEMBER OF THE INTERNATIONAL BAUXITE
ASSOCIATION (IBA), AND AT PRESENT SHOWS NO SIGNS OF JOINING,
ALBRAS PROBABLY WILL CONTRIBUTE TO THE U.S. OBJECTIVE OF
FAVORING DIVERSIFICATION OF WORLD PRODUCTION OF BAUXITE AND
ALUMINA. END SUMMARY.

2. FONMIN AND CVRD (COMPANHIA VALE DO RIO DOCE) OFFICIALS
HAVE CONFIRMED TO US THE VALIDITY OF PRESS REPORTS THAT
A GO-AHEAD ON THE ALBRAS PROJECT (REFS) WILL BE ANNOUNCED
DURING PRESIDENT GEISEL'S VISIT TO JAPAN, SEPT. 15-20.
ACCORDING TO THE PRESS REPORTS, JAPANESE PARTICIPATION IN
ALBRAS, TOTALING DOLS 620 MILLION, OR ROUGHLY 49 PERCENT OF
ESTIMATED PROJECT COST, WILL BE DIVIDED BETWEEN: JAPANESE
GOVERNMENT - 19.6 PERCENT (PC) (OF TOTAL ALBRAS COST); LMSA (
JAPANESE "LIGHT METALS SMELTER ASSOCIATION", COMPOSED OF MITSUI
ALUMINUM, NIPPON LIGHT METALS, MITSUBISHI CHEMICAL INDUS-
TRIES, SUMITOMO CHEMICAL AND SHOWA DENKO KEISHA) - 12.25 PC;
MARUBENI AND ITOH - 7.35 PC, AND KOBE STEEL AND YOSHIDA KOGYO -
9.8 PC. CVRD WILL BE RESPONSIBLE FOR BRAZILIAN SHARE (51 PC).
THE PROJECTS OUTPUT IS TO BE SPLIT BETWEEN THE TWO COUNTRIES
ON A 51/49 PC BASIS. THE BRAZILIANS HAVE ALSO ASSUMED
RESPONSIBILITY FOR THE SUPPLY OF POWER TO ALBRAS FROM
THE TUCURUI HYDROELECTRIC SHCEME, LOCATED ON THE TOCANTINS
RIVER 200 MILES SOUTHWEST OF THE ALBRAS SITE.

3. COMMENT. THE QUESTION OF JAPANESE PARTICIPATION IN
ALBRAS PROJECT HAS BEEN ON-AGAIN, OFF-AGAIN SINCE INITIAL
ANNOUNCEMENT OF COOPERATIVE EFFORT OVER TWO YEARS AGO.
EX-PM TANAKA, DURING HIS 1974 VISIT TO BRAZIL, PLEDGED
JAPANESE PARTICIPATION. THEN ONE YEAR AGO DEPUTY PM
FUKUDA REAFFIRMED THAT JAPAN WOULD KEEP ITS "COMMITMENTS"
EVEN THOUGH IT WAS WIDELY KNOWN AT THE TIME THAT THE JAPANESE
PRIVATE SECTOR REMAINED UNDECIDED ABOUT PARTICIPATION.
FUKUDA'S REAFFIRMATION, IN BRAZILIAN EYES, PUT CONSIDERABLE
ONUS ON THE GOJ TO ASSURE JAPANESE PARTICIPATION. REGARD-
LESS, GOB OFFICIALS, DESPITE OUTWARD CONFIDENCE, HAVE BEEN
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VERY NERVOUS WHETHER THE GOJ WOULD PULL THROUGH ON
ITS COMMITMENT IN TIME FOR GEISEL'S VISIT. WE CONJECTURE
THAT THE GOJ'S WILLINGNESS TO PROVIDE 40 PER-
CENT OF THE JAPANESE SHARE PROBABLY WAS THE LINCHPIN THAT
ENDED THE EMBARRASSING DELAYS ON A FINAL DECISION. THE
GOB, WE BELIEVE, SEES THE GOJ'S STEP AS ONE TAKEN AT LEAST
IN PART ON FOREIGN POLICY GROUNDS. WHATEVER ITS MOTIVES,
THE GO-AHEAD DECISION CAME AS SOMEWHAT OF A SURPRISE TO

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INDUSTRY OBSERVERS HERE.

4. ALBRAS WAS INITIALLY PLANNED TO BE TWICE AS LARGE IN SCOPE - 640,000 TONS ANNUAL OUTPUT - AS THE PRESENT PROJECT. THE FIRST AGREEMENT ALSO INCLUDED JAPANESE PARTICIPATION IN DEVELOPMENT OF THE TUCURUI PROJECT.
AS WE UNDERSTAND FROM THE JAPANESE EMBASSY HERE, JAPANESE FIRMS EVENTUALLY DECLINED TO PARTICIPATE IN TUCURUI. THIS FORCED THE GOB TO FIND A DIFFERENT SOURCE OF FOREIGN FINANCING, WHICH IT DID IN EUROPE. PRESIDENT GEISEL SIGNED THE FINANCING PACKAGE DURING HIS MAY 1976 TRIP TO PARIS, THUS CLEARING THE BIGGEST HURDLE TO A FAVORABLE DECISION ON ALBRAS.

5. INTERNAL IMPACT. THE GEISEL ADMINISTRATION ECHOED BY THE GOVERNMENT POLITICAL PARTY (ARENA) WILL DO A LOT OF CROWING AT HOME ABOUT THE ALBRAS DECISION. IT DOES, AFTER ALL, REPRESENT A REAL VICTORY FOR THE GEISEL ADMINISTRATION, ITS FOREIGN POLICY (I.E., LEVERAGE EXERTED ON JAPAN), AND ITS DRIVE TO EXPLOIT BRAZIL'S LARGELY UNEXPLOITED POTENTIAL FOR MINERALS PRODUCTION AND EXPORTS. THE DECISION IS BUT ONE OF A SPATE OF RECENT UPBEAT MINERALS ANNOUNCEMENTS (PETROLEUM, PHOSPHATES, COPPER, AND ANOTHER BUT SMALLER ALUMINUM PROJECT, THE CVRD/REYNOLDS METALS VALESUL PROJECT IN THE STATE OF RIO DE JANEIRO). ALL OF THE ANNOUNCEMENTS ARE HOPED TO CONTRIBUTE TO ARENA'S FORTURES IN NOVEMBER'S NATIONWIDE MUNICIPAL ELECTIONS. THE IMPACT OF THE ALBRAS DECISION WILL BE GREATEST IN THE STATE OF PARA, WHICH IS STILL LICKING ITS WOUNDS FROM THE DECISION WHICH GEISEL ANNOUNCED SEVERAL MONTHS AGO, TO BUILD THE PORT AND RAILROAD OF THE CARAJAS IRON ORE PROJECT IN AN ADJOINING STATE (THE MINE IS IN PARA).

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---------- 075239
R 111300Z SEP 76
FM AMEMBASSY BRASILIA
TO SECSTATE WASHDC 7776
INFO AMEMBASSY TOKYO
AMEMBASSY JAKARTA
AMEMBASSY CANBERRA
AMEMBASSY KINGSTON
USMISSION OECD PARIS
AMCONSUL RIO DE JANEIRO
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6. OUTLOOK FOR THE PROJECT. WITH CONSTRUCTION SET TO BEGIN IN APRIL 1977, EVERY ASPECT OF THE CONSTRUCTION OF ALBRAS AND OF THE TUCURUI HYDROELECTRIC FACILITY WOULD HAVE TO GO RIGHT FOR ALUMINUM PRODUCTION TO BEGIN IN 1981. GIVEN THE KINDS OF DELAYS WHICH TYPICALLY AFFECT LARGE BRAZILIAN PROJECTS, WE WOULD NOT BE SURPRISED TO SEE THE SCHEDULE FOR ALBRAS (OR TUCURUI) TO SLIP BY 1 - 3 YEARS. BRAZILIAN EQUIPMENT PRODUCERS ARE PUTTING GREATER PRESSURE ON THE GOB TO FORCE HIGH USAGE OF LOCAL COMPONENTS IN MAJOR PROJECTS. SINCE LOCAL EQUIPMENT IS EXPENSIVE (INEFFICIENTLY PRODUCED) AND FREQUENTLY LATE IN DELIVERY, DIFFICULTIES FOR ALBRAS OR TUCURUI MIGHT ARISE FROM THIS SOURCE. WHATEVER DELAYS ARE ENCOUNTERED WILL BE EXPENSIVE FOR BRAZIL IN TERMS NOT ONLY OF THE COSTS OF PROJECT DELAYS BUT ALSO COSTS OF IMPORTING ALUMINUM. UP TO 160,000 TONS WILL BE IMPORTED THIS YEAR, AND IMPORT REQUIREMENTS WILL
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INCREASE OVER TIME BARRING A SERIOUS RECESSION HERE.

7. IMPLICATIONS FOR U.S. ALBRAS (AND VALESUL) MIGHT EVENTUALLY DISPLACE A SMALL AMOUNT OF U.S. EXPORTS: IN 1975, U.S. EXPORTS TO BRAZIL OF ALUMINUM AND ALUMINUM ALLOYS, WROUGHT AND UNWROUGHT, WERE 13.3 MILLION DOLLARS; IN 1974 THE FIGURE WAS HIGHER, 24.1. IN TERMS OF OVERALL U.S. RAW MATERIALS POLICY, HOWEVER, ALBRAS IS LIKELY TO BE HELPFUL. SINCE BRAZIL IS NOT A MEMBER OF THE INTERNATIONAL BAUXITE ASSOCIATION (IBA), ALBRAS WILL CONTRIBUTE TO THE DIVERSIFICATION OF BAUXITE AND ALUMINA PRODUCTION IN NON-IBA STATES. WE CANNOT RULE OUT THAT ONE DAY BRAZIL WILL JOIN IBA, AFTER ITS BAUXITE-ALUMINA-ALUMINUM POTENTIAL IS MORE FULLY EXPLOITED. FOR THE PRESENT, HOWEVER, BRAZIL SEEMS TO HAVE NO INTENTIONS OF JOINING IBA OR ANY OTHER PRODUCERS ASSOCIATION IN THE MINERALS FIELD (E.G., IRON ORE).

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